



**BUILDING A STRONG FOUNDATION FOR  
SUSTAINABLE SERVICE DELIVERY: A FOCUS ON  
LEADERSHIP, MANAGEMENT AND GOVERNANCE**

---

NATIONAL COUNCIL OF PROVINCES  
THREE SPHERE PLANNING SESSION  
29-30<sup>TH</sup> MARCH 2023

# INTRODUCTION

---

- **Establishment**

- Section 220 of the Constitution of the Republic of South Africa, 1996 (as amended)
- Constitution provides that the Commission must function in terms of an Act of Parliament (s220(3))
- Enabling Legislation is the Financial and Fiscal Commission Act 1997 (as amended)
- Independent, juristic person subject only to the Constitution, Financial and Fiscal Commission Act, 1997 (Act No 99 of 1997) (as amended)
- Relevant legislative prescripts and must be impartial (s220(2))

- **Reporting Lines**

Commissioners must report regularly to Parliament.

# MANDATE, VISION AND MISSION

---

## **Mandate**

Acts as a consultative body, makes recommendations and gives advice to Parliament, provincial legislatures, organised local government and other organs of State on the equitable division of revenue among the three spheres of government and on any other financial and fiscal matters in terms of the Constitution and as provided for in national legislation.

## **Vision**

To provide influential advice for an equitable, efficient and sustainable Intergovernmental Fiscal Relations System

## **Mission**

To provide proactive, expert and independent advice on promoting a sustainable and equitable Intergovernmental Fiscal Relations system, through evidence-based policy analysis to ensure the realisation of our constitutional values

# FFC IN THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA

- ❖ The Financial and Fiscal Commission is a constitutional institution established under **Chapter 13: Finance, Sections 220-222 of the Constitution**, which makes recommendations envisaged in the following sections of the Constitution to Parliament, provincial legislatures and any other authorities determined by national legislation:
  - ❑ s214(2) Equitable shares and allocations of revenue;
  - ❑ s218(2) Government guarantees;
  - ❑ s228(2)(b) Provincial taxes;
  - ❑ s229(5) Municipal fiscal powers and functions;
  - ❑ s230(2) Provincial loans; and
  - ❑ s230A(2) Municipal loans.
  
- ❖ All legislations referred in these sections “may be enacted only after” any “recommendations of the Financial and Fiscal Commission have been considered”.

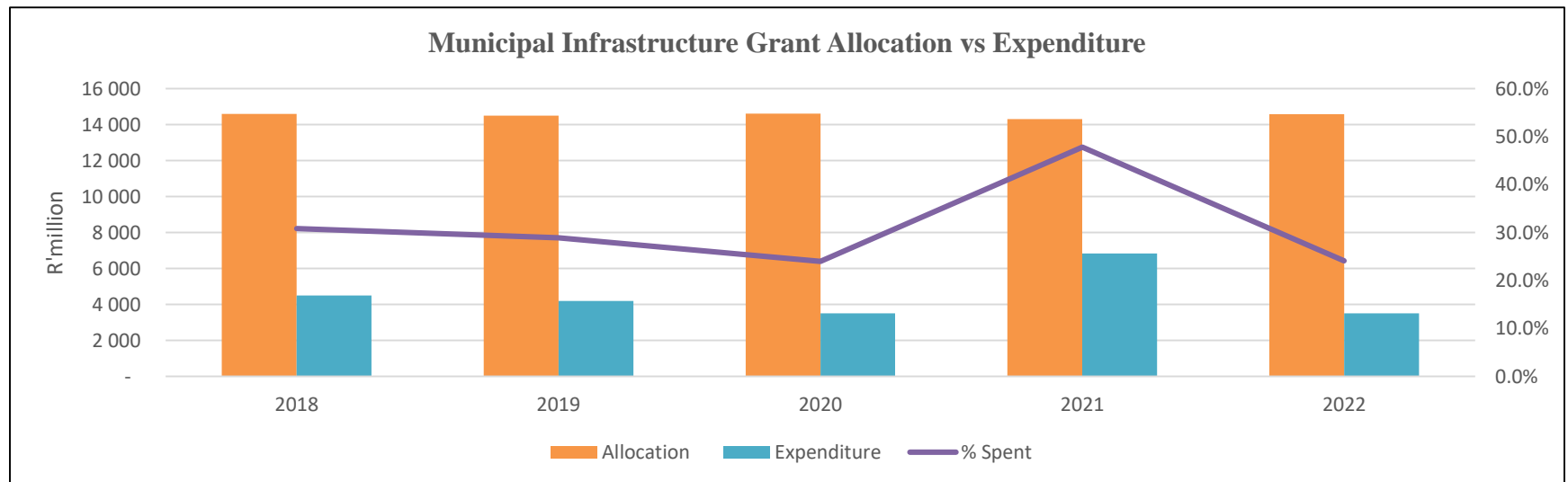
# CONTEXTUALISING LOCAL GOVERNMENT IN SOUTH AFRICA

- Municipalities have always played a significant role in the South African economy and play a critical role in the delivery of basic services
  - They account for 13% of public sector employment
  - The eight metros combined generate more than 50% of South Africa's GDP
- However, the sector is struggling to fulfil its mandate. It is faced with many challenges, including poor-quality basic services and weak institutional and governance capabilities
- These challenges manifest, among other things, in poor audit outcomes, poor asset care, generally weak service delivery etc
- The development and management of infrastructure has been a particular challenge at the local government level
- Many calls for interventions have been made to develop strategies to help strengthen the local sphere. It's an ongoing initiative between the government and various stakeholders to develop key policy recommendations to aid municipalities in fulfilling their constitutional mandate

# LOCAL GOVERNMENT AND INFRASTRUCTURE GRANTS

## GRANTS

- The constitutional mandate of municipalities is to deliver basic services (water, sanitation, electricity, refuse removal) – thus also responsible for the bulk infrastructure underpinning the basic services
- To assist municipalities in this regard, government has established various conditional grants aimed at funding the delivery of infrastructure - there are several direct and indirect infrastructure grants to municipalities
- MIG is the largest form of infrastructure financing for municipalities, specifically to local municipalities and district municipalities (C2)
  - The MIG aims to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities



# CHANGES TO THE MIG FRAMEWORK

- In the 2022 DoRA an indirect component was introduced to the MIG to allow COGTA to roll-out infrastructure projects in underperforming municipalities
- Over the 2023 MTEF, COGTA will provide support to municipalities that experience project implementation challenges. This support is through the indirect component of MIG, where the department will appoint an implementation agent to implement the identified infrastructure projects for the municipalities
- Municipalities are identified based on the previous four years' expenditure performance particularly municipalities that have spent below 70% of the original annual allocation over the last four years
- The Commission notes the endeavours by the department to improve service delivery, however, the FFC notes that additional work is still required for transparency (i.e., the number of municipalities and allocation) and the monitoring and evaluation of this new component
  - COGTA needs to advise on the steps taken to capacitate identified municipalities for the future implementation of infrastructure projects

# MIG RECOMMENDATIONS

- The FFC would like to reiterate its previous stance on this matter, particularly:
  - The need for principles and a systematic and transparent process to guide the reclassification and shifting of grants from direct to indirect (and vice versa)
  - Further, in its Submission for the Division of Revenue 2016/17, the Commission found that, generally, direct grants performed better than indirect grants and recommended the need for continued capacity building of municipalities with the use of indirect grants as a last resort
  - National Treasury and the Department of Cooperative Governance must develop a framework to guide accountability for indirect infrastructure grants. The framework should identify accountability lines, mechanisms, and enforcement, and spell out the consequences for undermining the accountability arrangements





# GETTING THE FOUNDATIONS RIGHT: LEADERSHIP, MANAGEMENT AND GOVERNANCE SYSTEMS

# GUIDANCE FROM THE CONSTITUTION

---

- Constitution provides guidance in terms of mechanisms for preventing and/or managing service delivery failure
  - Providing the necessary capacity to fulfil mandates
  - National and provincial oversight system
  - Intergovernmental fora
  - Section 100 and 139 interventions (S6 PFMA and s136 MFMA)

# LEADERSHIP

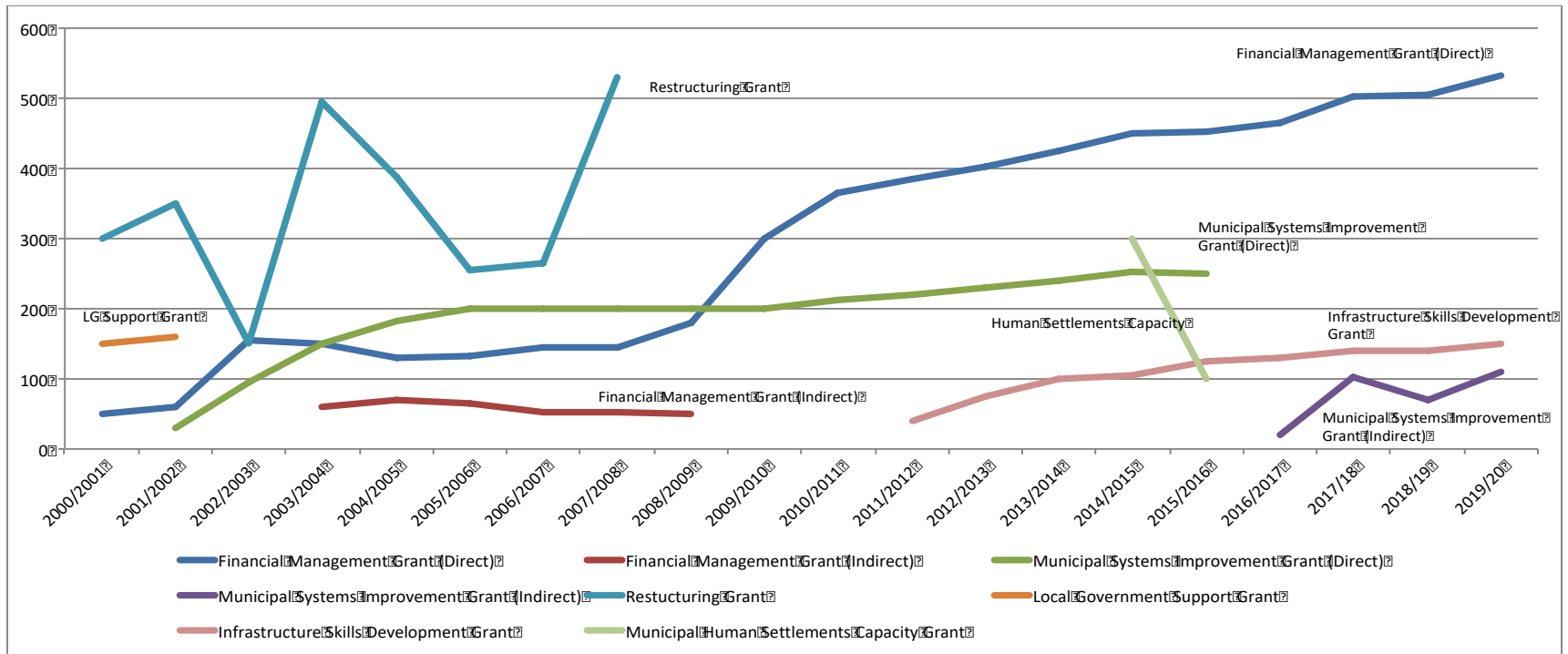
- A critical objective of the public service is to deliver services to all South Africans in an efficient, equitable and sustainable manner
- Service delivery performance in the public service could either be inhibited or accelerated by how well its leadership and governance framework is aligned to its policy objectives
- The stronger and more suitable the leadership and governance framework, the more likely it is that public service will attain its service delivery outcomes
  - So, the success or failure of government with respect to service delivery including infrastructure is a function of leadership and leadership style among other things
- The Covid-19 pandemic and how government responded demonstrated how critical is leadership and governance in determining the outcomes
  - Both good and bad lessons relating to the leadership and governance have been experienced

# MANAGEMENT AND ADDRESSING CAPACITY BUILDING ISSUES AT LOCAL GOVERNMENT LEVEL

---

- The human capital strength of government departments can serve to facilitate or deter the fulfilment of public sector goals and objectives
  - If performance within the local government sphere is to improve, the human capital capacity upon which it depends, will need to be renewed
- Prompted by the asymmetric financial, institutional and human capacity across municipalities, such capacity building grants were introduced into the system as far back as 2000
  - These grants were/remain necessary to facilitate the restructuring of municipalities and support the formal development of local government in various areas of the country
  - It should be considered as the financial sub-component of support, complementing the non-financial support like skills development and direct technical support

# FINANCIAL MUNICIPAL SUPPORT INTERVENTIONS: TRENDS IN CAPACITY BUILDING GRANTS (2000/01-2019/20)



- From 2000 to 2020, a total of approximately R14 billion was spent on various capacity-building grants in the local government fiscal framework.
- The total expenditure for capacity building peaked in 2014/15, where just over R1.1 billion was spent.

# FFC CAPACITY-RELATED RECOMMENDATIONS

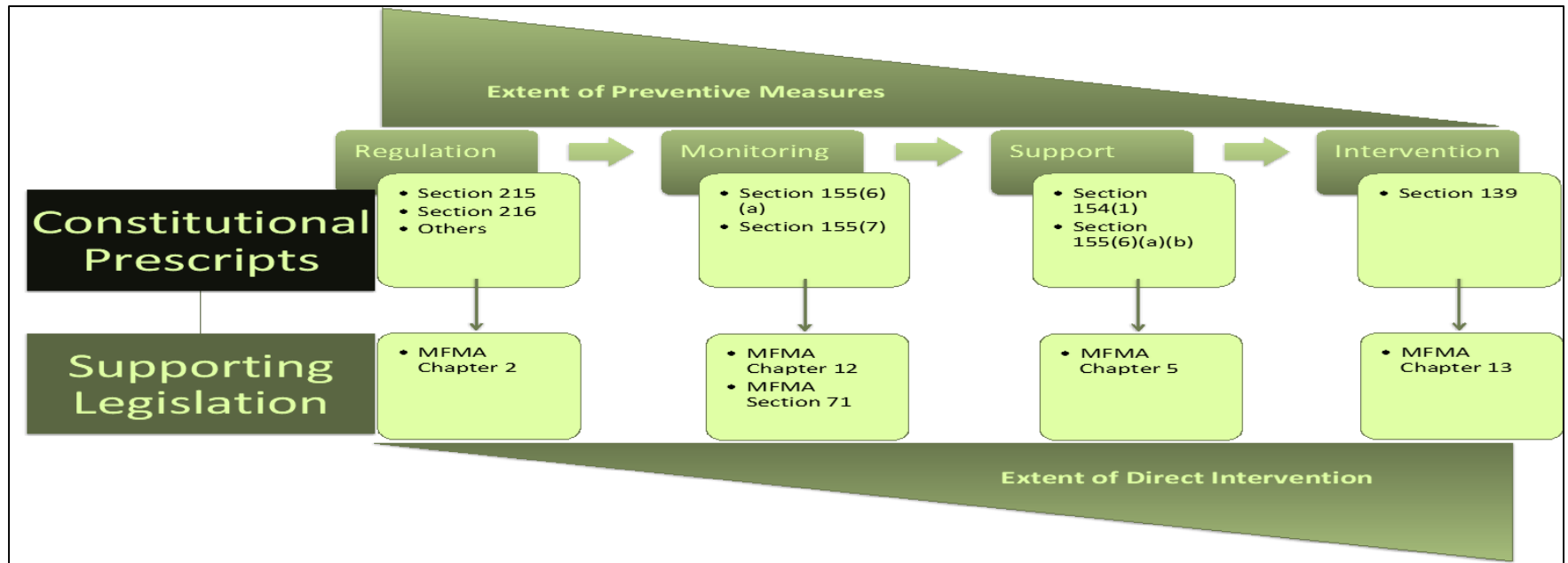
- The FFC acknowledges the conditional grant review being undertaken by the National Treasury and highlights the following aspects in relation to capacity:
  - Capacity-building efforts should be comprehensive and sustainable instead of quick-fix, short-term solutions
  - Establish a single capacity-support agreement per municipality. This agreement should stipulate all actions to be undertaken by the national and provincial governments and other relevant role-players
  - Measurable objectives for capacity-development programmes should be clearly defined (relative to credible baselines), and independent exit evaluations should be compulsory
  - The grants' conditionality must commit municipalities to specific, independently verifiable capacity and performance improvements
  - Grants should be redesigned to consider the quality of capacity-building interventions instead of having a narrow quantitative focus; An external, objective evaluation dimension should also be included in capacity grant requirements

# GOVERNANCE SYSTEMS: INTERGOVERNMENTAL OVERSIGHT AND SUPPORT

---

- While recognising each sphere as “distinctive, interdependent and interrelated”, the Constitution of South Africa also promotes the principle of cooperative governance
- As part of this cooperative governance framework, the Constitution formalises an oversight and support role for national and, particularly, provincial government over local government towards the achievement of its constitutional mandate
  - Local government autonomy is protected to the extent that service delivery and the vision of government are achieved
- In instances where this is not the case, cooperation and support from another sphere serves as the first and preferred means to improve performance and assist local government in exercising its constitutional functions
- The overall objective of oversight and support is to ensure that municipalities succeed in their duties towards their respective communities

# FRAMEWORK OF OVERSIGHT AND ITS COMPONENTS



- Regulations and legislation delineate what must be monitored. The key point of monitoring is to identify and diagnose potential problems and challenges that can lead to failure
- South African institutions have managed to create a legal environment that broadly covers monitoring, support, and intervention but still need to transform these legal provisions into effective practices that have the potential to reduce the chances of local government failures - most common triggers of intervention are connected to fiscal and financial distress, governance issues and incompetence, and failure to deliver services



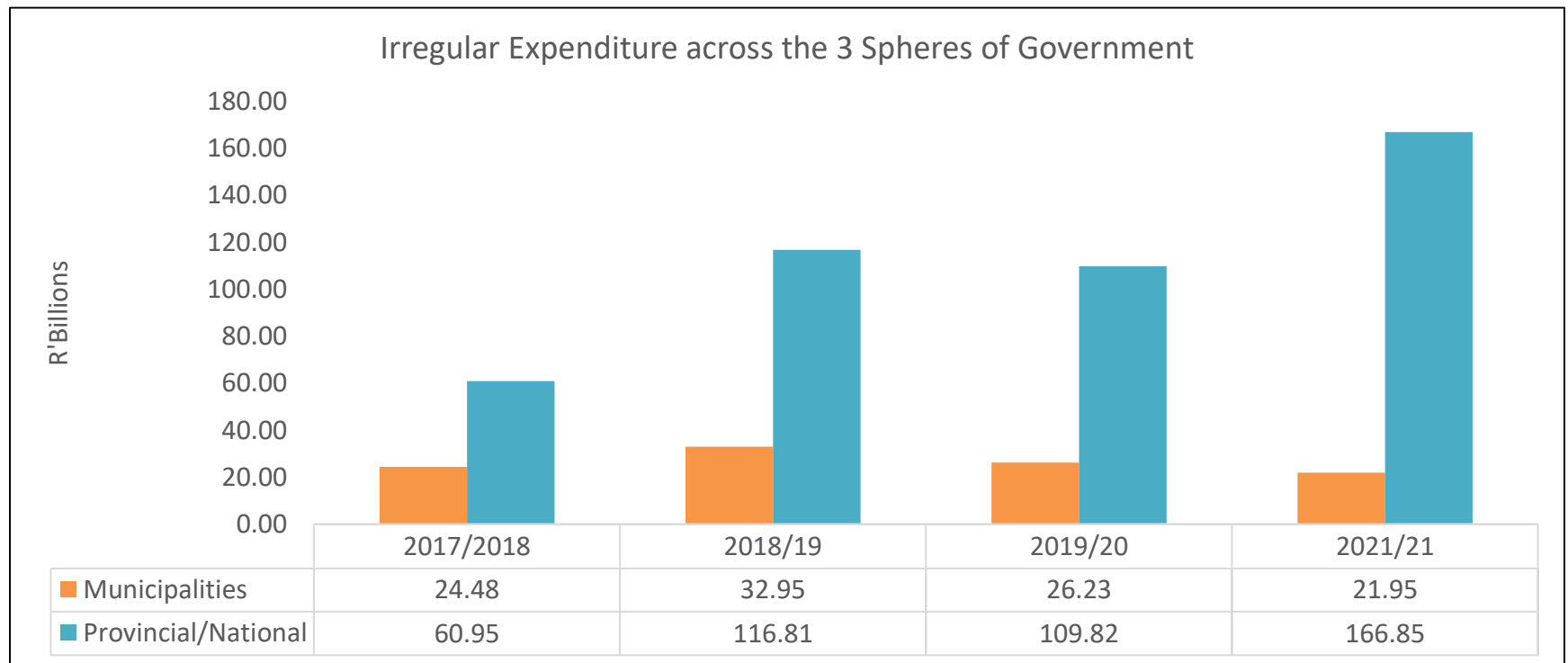
# FISCAL OVERSIGHT AND LEADERSHIP CHALLENGES: FFC PERSPECTIVE

---

- A lack of intergovernmental coordination - the wide range of role players in the implementation of catalytic projects include, among others, human settlements, roads and transport, water and sanitation. These stakeholders have divergent priorities in terms of infrastructure plans and sources of funding
- Political interference and poor political leadership – municipalities accentuated instances of political interference in the implementation of catalytic housing projects
  - One of the municipalities narrated an occurrence where a province imposed a contractor justified as a political instruction from higher political principals. Municipalities are unable to challenge political instruction no matter how disruptive such may be in the implementation of catalytic housing projects
- Absence of policies and regulations - the absence of policies and clear regulatory frameworks means that the adjudication of issues pertinent to the implementation of catalytic projects is left to the judicial system

# FISCAL OVERSIGHT AND LEADERSHIP CHALLENGES: FFC PERSPECTIVE [CONT.]

- Increasing rand value of irregular expenditure confirms that little or no efforts are made by all spheres of government to implement the recommendations of the AGSA and is indicative of a lack of consequence management



Source: 2020/21 Consolidated AG reports MFMA & PFMA

# FFC'S INTERGOVERNMENTAL OVERSIGHT AND SUPPORT-RELATED RECOMMENDATIONS

---

- Given that the current monitoring and support framework is applied uniformly across local government, the government should reconsider its current approach to explore the principle of a differentiated method to municipalities when it comes to financial and non-financial reporting requirements, overall monitoring and support
- The Minister of Finance should ensure that provincial treasuries are effectively capacitated to undertake their oversight and support role of local government in terms of financial management. In addition, government should consider developing a common framework to guide provinces in their oversight and support role towards the delivery of basic services
- The Financial Management Grant and Municipal Systems Improvement Grant are critical for building financial management-related human capital capacity and systems. These are particularly important in the case of rural municipalities, which struggle to attract and retain skills

# STEPS TO IMPROVE ACCOUNTABILITY FOR LEADERSHIP



Source: 2020/21 Consolidated AG Report MFMA

# DEVELOPMENTS THAT WILL FURTHER STRENGTHEN GOOD GOVERNANCE AND ACCOUNTABILITY

- Amendments to the Public Audit Act (2019)
  - There were 3 key amendments made to the Public Audit Act (PAA), namely:
    1. Allows the Auditor General (AG) the ability to take binding remedial action for failure to implement the recommendations for Material irregularities;
    2. The AG to refer material irregularities to the relevant public organisations for further investigations; and
    3. AG to issue debt certificates for the failure to implement the remedial actions if financial loss was involved
- The amendments strengthen the AGs ability to enforce the outcomes of Material Irregularities
- The new amendment addresses the issue of mismanagement but not the root cause
- To maintain independence, the AG reports directly to the legislature branch, while municipalities fall under the executive branch of government; however, the lines of escalation of performance mis/management has since shifted with these PAA amendments - this removes the inclusion and the responsibility of the provincial MECs and the National Minister of COGTA in this process of performance management

# THE ROLE OF CHAPTER 9 INSTITUTIONS IN ENHANCING ACCOUNTABILITY?

- Chapter 9 institutions are intended to be independent of government, subject only to the Constitution and the law, and report annually to Parliament. Currently chapter 9 organisations and AG have various platforms that promote collaboration
- To ensure that collaboration is effective in enhancing the accountability of local government, these institutions should have agreed/shared objectives identifying key priorities, roles and responsibilities to achieve a joint/successful outcome
- Collaboration should be ongoing and transparent; and mechanisms should be implemented at multiple levels to maintain momentum on agreed initiatives. For example, annual conferences, quarterly checkpoints, monthly feedback on progress and realignment of priorities
- Strengthening the independence of chapter 9 institutions is important and becomes questionable when assessing their source of funding – many chapter 9 institutions are unable to raise their own funds and rely on funding from national government.
- Sufficient mechanisms (e.g. laws and regulations) should be put in place and enforced which protects and promotes the independence of chapter 9 institutions so that they can effectively fulfil their mandate

# CONCLUDING REMARKS

- The Minister of Finance, in the Division of Revenue, should ensure that commitment to compliance with legislation and policy frameworks is formalised with all participants in an infrastructure project prior to the commencement of the project, with financial consequences for compliance failures clearly set out
- The Minister of Cooperative Governance and Traditional Affairs should review the intergovernmental coordination policy framework and consider strengthening intergovernmental coordination both vertically and horizontally. The intergovernmental relations arrangement clearly defines how the three spheres of government should work together in the implementation of a number of mandates, including infrastructure delivery, but is silent on how coordination between these spheres should be managed
- The Minister of Finance, in the Division of Revenue, should incentivise consequence management. This will ensure that all public office bearers are held legally and personally responsible when they transgress supply chain management policies in the implementation of infrastructure projects
- Departments should review and strengthen internal controls to ensure effectiveness and reduce irregular expenditure



THANK YOU.

*[www.ffc.co.za](http://www.ffc.co.za)*